

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature		Printed Name	License Number	

Charter Township of Orion Oakland County, Michigan

**Financial Report
with Supplemental Information
December 31, 2006**

Charter Township of Orion

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion as of and for the year ended December 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Orion's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Orion as of December 31, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Board of Trustees
Charter Township of Orion
Oakland County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Orion's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

May 9, 2007

Charter Township of Orion

Management's Discussion and Analysis

Our discussion and analysis of the Charter Township of Orion's (the "Township") financial performance provides an overview of the Township's financial activities for the fiscal year ended December 31, 2006. Please read it in conjunction with the Township's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended December 31, 2006:

- State-shared revenue, our largest revenue source in the General Fund, was decreased slightly by the State of Michigan this year by approximately \$42,700 (1.9 percent).
- Total fund balances related to the Township's governmental funds increased by approximately \$1.8 million. This increase was slightly more than the increase in 2005. The Township continued to invest in capital assets, including the completion of Fire Station #4 (\$90,000) and park paving at both Friendship and Civic Center Parks (\$398,071).
- In 2006, the Township designated an additional portion of fund balance to provide for paving of Flintridge and Pine Tree roads (\$200,000), HVAC at historic Union Church (\$50,000), and the purchase of property (\$82,000) to be completed in 2007.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of Orion Township as a whole and present a longer-term view of the Township's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Township in more detail than the government-wide financial statements by providing information about the Township's most significant funds. The fiduciary fund statements provide financial information about activities for which the Township acts solely as a trustee or agent for the benefit of those outside the government.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

Governmental Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets (in thousands of dollars) compared to the prior year:

	2006	2005	Change	Percent
Assets				
Current assets	\$ 27,770	\$ 25,961	\$ 1,809	7.0%
Noncurrent assets	22,025	22,088	(63)	-0.3%
Total assets	49,795	48,049	1,746	3.6%
Liabilities				
Current liabilities	8,098	8,095	3	0.0%
Long-term liabilities	156	154	2	1.6%
Total liabilities	8,254	8,249	5	0.1%
Net Assets				
Invested in capital assets	22,026	22,088	(62)	-0.3%
Restricted	3,958	3,404	554	16.3%
Unrestricted	15,557	14,308	1,249	8.7%
Total net assets	<u>\$ 41,541</u>	<u>\$ 39,800</u>	<u>\$ 1,741</u>	4.4%
	2006	2005	Change	Percent
Revenue				
Program revenue:				
Charges for services	\$ 1,539	\$ 1,822	(283)	-15.5%
Operating grants and contributions	264	41	223	543.9%
Capital grants and contributions	1,122	1,297	(175)	-13.5%
General revenue:				
Property taxes and related fees	6,788	6,670	118	1.8%
State-shared revenue	2,195	2,238	(43)	-1.9%
Unrestricted investment earnings	1,240	741	499	67.3%
Host fees	262	325	(63)	-19.3%
Lawsuit settlement	-	400	(400)	-100.0%
Other revenue	25	149	(124)	-83.1%
Transfers	-	(313)	313	-100.0%
Total revenue	13,435	13,370	65	0.5%
Program Expenses				
General government	2,678	2,530	148	5.9%
Public safety	6,032	5,737	295	5.1%
Public works	1,432	1,353	79	5.8%
Health and welfare	282	165	117	70.8%
Community and economic development	179	149	30	19.9%
Recreation and culture	1,090	861	229	26.6%
Total program expenses	11,693	10,795	898	8.3%
Change in Net Assets	<u>\$ 1,742</u>	<u>\$ 2,575</u>	<u>\$ (833)</u>	-32.4%

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The Township's total governmental revenues increased by approximately \$65,000, from \$13.370 million to \$13.435 million (0.5 percent), despite decreases in capital grants and host fee revenues. Interest income increased for the second year in a row due in large part to the stabilization of interest rates by the Federal Reserve Board in 2006, increasing by approximately \$499,000, from \$741,000 to \$1,240,000 (67.3 percent). Of the Township's total revenue for fiscal year 2006, property taxes comprised the largest segment, as was the case in 2005.

The Township's total governmental expenses increased approximately \$898,000, from \$10.795 million to \$11.693 million (8.3 percent). The majority of governmental expense is associated with the public safety function, which includes both fire and police services.

Business-type Activities

The following table shows, in a condensed format, the current year's net assets and changes in net assets (in thousands of dollars), compared to the prior year:

	2006	2005	Change	Percent
Assets				
Current assets	\$ 31,440	\$ 33,812	\$ (2,372)	-7.0%
Noncurrent assets	64,266	58,316	5,950	10.2%
Total assets	95,706	92,128	3,578	3.9%
Liabilities - Current liabilities	1,481	1,410	71	5.1%
Net Assets				
Invested in capital assets	39,370	34,079	5,291	15.5%
Restricted	24,022	23,122	900	3.9%
Unrestricted	30,833	33,517	(2,684)	-8.0%
Total net assets	\$ 94,225	\$ 90,718	\$ 3,507	3.9%
	2006	2005	Change	Percent
Revenue				
Program revenue:				
Charges for services	\$ 7,425	\$ 8,080	\$ (655)	-8.1%
Operating expenses other than depreciation	(7,205)	(6,902)	(303)	4.4%
Depreciation	(1,732)	(1,591)	(141)	8.9%
Operating loss	(1,512)	(413)	(1,099)	266.1%
Investment income	2,505	2,290	215	9.4%
Gain on sale of assets	-	6	(6)	-100.0%
Capital contributions	2,514	2,112	402	19.0%
Transfers from other funds	-	313	(313)	-100.0%
Change in Net Assets	\$ 3,507	\$ 4,308	\$ (801)	-18.6%

Charter Township of Orion

Management's Discussion and Analysis (Continued)

The Township's business-type activities consist of the Water and Sewer Fund. We provide water to approximately 80 percent of Township residents, which comes from the Detroit water system. We provide sewage treatment to approximately 80 percent of Township residents, through a City of Detroit-owned and operated sewage treatment plant, administered through Oakland County. Water and sewer usage was up in 2006 from 2005 due to new development and hook-ups to the water and sewer system. Investment income increased \$215,000, from \$2.290 million to \$2.505 million (9.4 percent), due to the maturity of low-income investments that were reinvested at current interest rates, which stabilized at approximately 5 percent in 2006.

The Township's Funds

Our analysis of the Township's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Orion Township board of trustees creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as property tax millages. The Township's major funds for 2006 include the General Fund, the Fire Protection Fund, and the Police Protection Fund.

The General Fund pays for most of the Township's governmental services. However, the most significant governmental service is police and fire protection, which incurred expenses of \$4.751 million in 2006, which was an increase of \$343,784 (7.8 percent). These two services are entirely supported by special public safety millages, which are recorded in the respective Public Safety Funds. In addition, there are two capital improvement funds: the General Capital Improvement Fund and the Fire Capital Improvement Fund. The Township board designated \$332,000 from the General Capital Improvement Fund in 2006 for the paving of Flintridge and Pine Tree roads, HVAC for Union Church, and the future purchase of property. The Fire Capital Improvement Fund received \$600,000 in 2006 from the Fire Protection Fund to be used for future capital improvements.

General Fund Budgetary Highlights

Over the course of the year, the Township board made necessary budget adjustments to fund unanticipated expenses during the year. Budget amendments were made as a result of an estimated increase in attorney fees in the amount of \$45,000, in addition to unrestricting of prior restricted fund balance for park paving expenses (\$300,000). These amendments totaled \$345,000. However, due to the departments coming in under budget at year end, there was an overall favorable variance of approximately \$577,630 from budget for General Fund expenditures.

Charter Township of Orion

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of 2006, the Township had approximately \$61.4 million invested in a broad range of capital assets, including buildings, land, police and fire equipment, and water and sewer lines, among others. In addition, the Township has made certain investments in roads and drains within the Township.

The Township has no bonded outstanding debt as of the 2006 year end.

Economic Factors and Next Year's Budget

The Township's budget for next year calls for a reduction in property tax rates. This can be accomplished because of the strong growth in our tax base. Because of the impact of Proposal A, however, the Township needs to continue to monitor its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of the inflation rate or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Township will grow by less than inflation, before considering new property additions. However, the Headlee rollback will not apply for taxes collected in 2006 because the overall Township's property taxable values were equal to the rate of inflation and therefore there is no need for the millage to be rolled back. We anticipate that the water and sewer rates will not increase during 2006.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office at (248) 391-0304, extension 104 or via the Township's website at clerksoffice@oriontownship.org.

Charter Township of Orion

Statement of Net Assets December 31, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 8,726,421	\$ 3,229,000	\$ 11,955,421
Investments (Note 3)	12,682,810	24,794,989	37,477,799
Receivables - Net	5,465,076	3,580,927	9,046,003
Internal balances	164,594	(164,594)	-
Prepaid costs and other assets	730,677	-	730,677
Restricted assets (Note 1)	-	24,022,328	24,022,328
Capital and lateral fees receivable	-	873,902	873,902
Capital assets - Nondepreciable (Note 5)	4,821,929	-	4,821,929
Capital assets - Subject to depreciation - Net (Note 5)	17,203,846	39,369,972	56,573,818
Total assets	49,795,353	95,706,524	145,501,877
Liabilities			
Accounts payable	786,769	1,151,057	1,937,826
Accrued and other liabilities	105,331	40,844	146,175
Deferred revenue (Note 4)	7,142,612	289,402	7,432,014
Noncurrent liabilities (Note 7):			
Due within one year	62,735	-	62,735
Due in more than one year	156,480	-	156,480
Total liabilities	8,253,927	1,481,303	9,735,230
Net Assets			
Invested in capital assets	22,025,775	39,369,972	61,395,747
Restricted:			
Fire protection	529,103	-	529,103
Liquor law enforcement	48,411	-	48,411
Police protection	2,035,698	-	2,035,698
Safety path	1,345,224	-	1,345,224
Capital projects (Note 1)	-	24,022,328	24,022,328
Unrestricted	15,557,215	30,832,921	46,390,136
Total net assets	\$ 41,541,426	\$ 94,225,221	\$ 135,766,647

Charter Township of Orion

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,678,124	\$ 352,938	\$ -	\$ 84,588
Public safety	6,031,782	890,437		180,000
Public works	1,431,872	11,123	175,851	407,993
Health and welfare	281,753	105	62,082	-
Community and economic development	179,590	63,565	25,668	-
Recreation and culture	<u>1,089,872</u>	<u>220,850</u>	<u>-</u>	<u>449,458</u>
Total governmental activities	11,692,993	1,539,018	263,601	1,122,039
Business-type activities - Water and sewer	<u>8,937,173</u>	<u>7,425,379</u>	<u>-</u>	<u>2,513,814</u>
Total primary government	<u><u>\$ 20,630,166</u></u>	<u><u>\$ 8,964,397</u></u>	<u><u>\$ 263,601</u></u>	<u><u>\$ 3,635,853</u></u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Eagle Valley host fee				
Miscellaneous				
Total general revenues				
Change in Net Assets				
Net Assets - Beginning of year				
Net Assets - End of year				

Statement of Activities
Year Ended December 31, 2006

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
<hr/>		
\$ (2,240,598)	\$ -	\$ (2,240,598)
(4,961,345)	-	(4,961,345)
(836,905)	-	(836,905)
(219,566)	-	(219,566)
(90,357)	-	(90,357)
(419,564)	-	(419,564)
<hr/>		
(8,768,335)	-	(8,768,335)
-	1,002,020	1,002,020
<hr/>		
(8,768,335)	1,002,020	(7,766,315)
6,787,552	-	6,787,552
2,194,957	-	2,194,957
1,239,881	2,505,043	3,744,924
262,267	-	262,267
25,194	20	25,214
<hr/>		
10,509,851	2,505,063	13,014,914
<hr/>		
1,741,516	3,507,083	5,248,599
<hr/>		
39,799,910	90,718,138	130,518,048
<hr/>		
\$ 41,541,426	\$ 94,225,221	\$ 135,766,647
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Charter Township of Orion

Governmental Funds Balance Sheet December 31, 2006

	General Fund	Fire Protection Fund	Police Protection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 3)	\$ 8,726,421	\$ -	\$ -	\$ -	\$ 8,726,421
Investments (Note 3)	8,770,605	-	-	3,912,205	12,682,810
Receivables (Note 4):					
Property taxes	1,143,085	1,092,956	2,005,786	262,065	4,503,892
Interest	346,169	-	-	-	346,169
Other	-	-	-	22,484	22,484
Due from other governmental units	399,995	-	-	-	399,995
Due from other funds (Note 6)	784,077	4,052,603	4,010,339	7,705,655	16,552,674
Other assets	720,657	-	-	-	720,657
Prepaid expenses	10,020	-	-	-	10,020
Total assets	\$ 20,901,029	\$ 5,145,559	\$ 6,016,125	\$ 11,902,409	\$ 43,965,122
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 126,676	\$ 29,327	\$ 542,395	\$ 88,371	\$ 786,769
Other liabilities	63,608	40,277	-	-	103,885
Due to other funds (Note 6)	13,013,212	2,755,385	-	619,483	16,388,080
Due to other governmental units	1,446	-	-	-	1,446
Deferred revenue (Note 4)	1,720,711	1,791,467	3,389,621	479,444	7,381,243
Total liabilities	14,925,653	4,616,456	3,932,016	1,187,298	24,661,423
Fund Balances					
Reserved for prepaid expenses	10,020	-	-	-	10,020
Reserved for liquor law enforcement	-	-	48,411	-	48,411
Designated fund balance (Note 9)	390,038	14,708	1,179,115	6,103,297	7,687,158
Unreserved, reported in:					
General Fund	5,575,318	-	-	-	5,575,318
Special Revenue Funds	-	514,395	856,583	65,101	1,436,079
Capital Projects Funds	-	-	-	4,546,713	4,546,713
Total fund balances	5,975,376	529,103	2,084,109	10,715,111	19,303,699
Total liabilities and fund balances	\$ 20,901,029	\$ 5,145,559	\$ 6,016,125	\$ 11,902,409	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					22,025,775
Receivables are expected to be collected over several years and are not available to pay for current year expenditures					
net of reserve for uncollectibles					82,447
State revenue-sharing receivable is expected to be collected over the next year and is not available to pay for current year expenditures					348,720
Long-term liabilities are not due and payable in the current period and are not reported in the funds					(219,215)
Net assets of governmental activities					\$ 41,541,426

Charter Township of Orion

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2006

	General Fund	Fire Protection Fund	Police Protection Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Taxes and penalties	\$ 1,413,935	\$ 1,714,992	\$ 3,247,198	\$ 411,427	\$ 6,787,552
Licenses and permits	712,302	-	14,797	16,051	743,150
Eagle Valley fees	-	-	-	262,267	262,267
Federal grants:					
CDBG	69,088	-	-	-	69,088
Other	-	-	-	180,000	180,000
State sources	2,189,750	1,631	3,252	48,374	2,243,007
Interest	718,316	80,970	176,224	264,372	1,239,882
Special assessments	-	-	-	50,097	50,097
Other	605,292	4,525	302,819	111,750	1,024,386
Total revenue	5,708,683	1,802,118	3,744,290	1,344,338	12,599,429
Expenditures					
General government	2,545,607	-	-	-	2,545,607
Public safety	958,735	1,280,440	3,450,690	46,370	5,736,235
Public works	265,275	-	-	-	265,275
Health and welfare	321,144	-	-	-	321,144
Recreation and culture	847,025	-	-	-	847,025
Capital outlay	54,494	19,468	-	997,955	1,071,917
Other	-	-	-	93,106	93,106
Total expenditures	4,992,280	1,299,908	3,450,690	1,137,431	10,880,309
Excess of Revenue Over Expenditures	716,403	502,210	293,600	206,907	1,719,120
Other Financing Sources (Uses)					
Transfer in	27,227	-	-	766,000	793,227
Transfer out	(166,000)	(600,000)	-	(27,227)	(793,227)
Contribution	-	-	-	100,000	100,000
Total other financing sources (uses)	(138,773)	(600,000)	-	838,773	100,000
Net Change in Fund Balances	577,630	(97,790)	293,600	1,045,680	1,819,120
Fund Balances - January 1, 2006	5,397,746	626,893	1,790,509	9,669,431	17,484,579
Fund Balances - December 31, 2006	\$ 5,975,376	\$ 529,103	\$ 2,084,109	\$ 10,715,111	\$ 19,303,699

Charter Township of Orion

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ 1,819,120
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(904,123)
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Revenue associated with contributed assets is recorded in the statement of activities; it is not reported in the funds	842,038
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Certain revenues are recorded in the statement of activities when the revenue is earned; they are not reported in the funds until collected or collectible within 60 days of year end	2,606
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Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds	(14,999)
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Increase in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(3,126)</u>
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Change in Net Assets of Governmental Activities	<u>\$ 1,741,516</u>
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Charter Township of Orion

Proprietary Funds Statement of Net Assets December 31, 2006

	Enterprise - Water and Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 3,229,000
Investments	24,794,989
Receivables - Net:	
Water and sewer billings	1,505,577
Interest	1,621,458
Special assessments	453,892
Total current assets	31,604,916
Noncurrent assets:	
Restricted assets (Note 1)	24,022,328
Capital and lateral fees receivable	873,902
Property and equipment - Net (Note 5)	39,369,972
Total noncurrent assets	64,266,202
Total assets	95,871,118
Liabilities - Current liabilities	
Accounts payable	1,151,057
Due to other funds	164,594
Other liabilities	40,844
Deferred revenue	289,402
Total liabilities	1,645,897
Net Assets	
Investment in capital assets	39,369,972
Restricted (Note 1)	24,022,328
Unrestricted	30,832,921
Total net assets	\$ 94,225,221

Charter Township of Orion

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2006

	Enterprise - Water and Sewer Fund
Operating Revenue	
Water charges	\$ 3,764,919
Sewer charges	3,333,373
Water connection charges	132,817
Charges for services	29,226
Other operating revenue	<u>165,044</u>
Total operating revenue	7,425,379
Operating Expenses	
Cost of water and sewage disposal	5,512,237
Depreciation	1,732,454
Salaries and fringe benefits	941,565
Utilities	29,937
Insurance	47,923
Professional services	225,575
Tools and supplies	196,285
Repairs and maintenance	186,922
Other operating expenses	<u>64,275</u>
Total operating expenses	<u>8,937,173</u>
Operating Loss	(1,511,794)
Nonoperating Income	
Investment income	2,505,043
Gain on sale of assets	<u>20</u>
Income - Before capital contributions and transfers	993,269
Capital Contributions	
Capital and lateral charges	468,814
Developer contributions	<u>2,045,000</u>
Total capital contributions	<u>2,513,814</u>
Change in Net Assets	3,507,083
Net Assets - January 1, 2006	<u>90,718,138</u>
Net Assets - December 31, 2006	<u><u>\$ 94,225,221</u></u>

Charter Township of Orion

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2006

	Enterprise - Water and Sewer Fund
Cash Flows from Operating Activities	
Receipts from customers	\$ 7,718,761
Payments to suppliers	(6,114,567)
Payments to employees	(937,988)
Internal activity - Net payments to other funds	94,498
Other receipts	<u>241,494</u>
Net cash provided by operating activities	1,002,198
Cash Flows from Capital and Related Financing Activities	
Purchase of capital assets	(4,978,986)
Loss on sale of capital assets	20
Collection of special assessments	76,986
Capital and lateral charges	<u>468,814</u>
Net cash used in capital and related financing activities	(4,433,166)
Cash Flows from Investing Activities	
Investment income	2,017,138
Proceeds from sale of investment securities	<u>(8,485,831)</u>
Net cash used in investing activities	<u>(6,468,693)</u>
Net Decrease in Cash and Cash Equivalents	(9,899,661)
Cash and Cash Equivalents - Beginning of year	<u>37,150,989</u>
Cash and Cash Equivalents - End of year	<u>\$ 27,251,328</u>
Statement of Net Assets Classification of Cash and Cash Equivalents	
Cash and cash equivalents	\$ 3,229,000
Restricted assets - Cash and cash equivalents	<u>24,022,328</u>
Total cash and cash equivalents	<u>\$ 27,251,328</u>

Charter Township of Orion

Proprietary Funds Statement of Cash Flows (Continued) Year Ended December 31, 2006

	Enterprise - Water and Sewer
Reconciliation of Operating Loss to Net Cash from Operating Activities	
Operating loss	\$ (1,511,794)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	1,732,454
Changes in assets and liabilities:	
Receivables	615,291
Due to other funds	94,498
Accounts payable	148,587
Accrued and other liabilities	3,578
Deferred revenue	(80,416)
Net cash provided by operating activities	<u><u>\$ 1,002,198</u></u>

Noncash Investing, Capital, and Financing Activities - During the year ended December 31, 2006, the Water and Sewer Fund received \$2,045,000 of lines donated by developers.

Charter Township of Orion

Fiduciary Funds Statement of Assets and Liabilities - Agency Funds December 31, 2006

Assets - Cash	\$ 5,490,090
Liabilities	
Due to other governmental units	\$ 4,059,924
Deposits and building bonds	1,363,944
Other liabilities	<u>66,222</u>
 Total liabilities	 \$ 5,490,090

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Orion (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Orion:

Reporting Entity

The Charter Township of Orion is governed by an elected seven-member board of trustees. The accompanying financial statements present the Township; there are no component units that should be included in the Township's financial statements.

Jointly Governed Organizations

The Township is a member of the North Oakland Transportation Authority, which provides transportation services to the residents of Orion Township, Addison Township, and Oxford Township. The participating communities provide annual funding for its operations. During the current year, the Township contributed approximately \$55,000 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the North Oakland Transportation Authority can be obtained from the administrative offices at 1370 South Lapeer Road, Oxford, MI 48371.

The Township is also a member of the Paint Creek Trailway Commission, which was organized in 1981 for the purposes of owning, developing, maintaining, and otherwise operating certain nonmotorized public trails within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township (8 percent), City of Rochester (11 percent), City of Rochester Hills (37 percent), and Oakland Township (44 percent), provide annual funding for its operations. During the current year, the Township contributed approximately \$19,300 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. The Township does have an equity interest in the joint venture. Complete financial statements for the Paint Creek Trailways Commission can be obtained from the administrative offices at 4393 Collins Road, Rochester, MI 48306.

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township is also a member of the Polly Ann Trail Management Council, which was organized in 1997 for the purposes of owning, developing, maintaining, and otherwise operating nonmotorized public trails within the property contained within the boundaries of the Grand Trunk Western Railroad Company's railroad corridor. The Grand Trunk Western Railroad Company's railroad corridor is within the jurisdiction of the participating governmental organizations. The participating communities, which include Orion Township, Oxford Township, Addison Township, and Villages of Oxford and Leonard provide annual funding for its operations. During the current year, the Township contributed approximately \$27,200 for its operations. The Township is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Polly Ann Trailway Management Council can be obtained from the administrative offices at 23 E. Elmwood, Leonard, MI 48367.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Protection Fund - This fund accounts for all revenue and expenditures for the Township's fire operations, including millage collection. The Township fire department also provides fire fighting services to the communities of Lake Angelus and Oakland Township on a contractual basis.

Police Protection Fund - This fund accounts for the Township's police protection contracted with Oakland County. This protection is funded through a special millage.

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township reports the following proprietary fund:

Enterprise Fund (Water and Sewer Fund) - The Water and Sewer Fund is used to account for the results of operations that provide a service to citizens that is financed primarily by a user charge for the provision of that service.

Additionally, the Township reports the following fund type:

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales of water and sewer services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

The Township's 2005 tax is levied and collectible on December 1, 2005 and is recognized as revenue in the year ended December 31, 2006, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2005 taxable valuation of the Township totaled \$1.71 billion (a portion of which is abated and a portion of which is captured by the Village of Lake Orion's DDA), on which taxes levied consisted of .8200 mills for operating purposes, 1.9832 mills for police services, .9916 mills for fire service, and .2382 for safety path. This resulted in \$1.41 million for operating, \$3.25 million for police services, \$1.71 million for fire service, and approximately \$411,000 for safety path. These amounts are recognized in the respective General, Special Revenue, and Capital Projects Funds financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund is generally allocated to each fund using a weighted average.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - According to the Township's ordinance, certain investments are restricted for future major repairs, replacements, or improvements to the water and sewer system. These amounts have been classified as restricted assets and fund balance has been restricted.

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., roads, drains, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	15 years
Road usage rights	20 years
Water system	40 years
Sewer system	40 years
Drains	40 years
Buildings and improvements	40 years
Safety path	15 years
Machinery, furniture, and equipment	5 years
Office equipment	5 years
Vehicles	5 years

Compensated Absences (Vacation and Sick Leave) - It is the Township's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Township does not have a policy to pay any amounts when employees separate from service with the Township. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Long-term Obligations - In the government-wide financial statements, long-term obligations are reported as liabilities in the governmental activities.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative shortfall generated since January 1, 2000 is as follows:

Shortfall - January 1, 2006	\$ (982,861)
Current year building permit revenue	755,137
Related expenses:	
Direct costs	(938,011)
Estimated indirect costs	<u>(137,167)</u>
Net current year activity	<u>(320,041)</u>
Cumulative shortfall - December 31, 2006	<u>\$ (1,302,902)</u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 3 - Deposits and Investments (Continued)

The Township has designated 25 banks for the deposit of its funds. The investment policy adopted by the board is in accordance with Public Act 196 of 1997 and has authorized investments in all of the allowable vehicles mentioned above. In addition, the Township's investment policy indicates that the treasurer shall diversify the investments by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than 60 percent to 80 percent of the total investment portfolio will be invested in a single security type or more than 30 percent with a single financial institution. Also, the Township's investments may not exceed 10 percent of the total assets of a single financial institution.

The Township's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the Township had approximately \$64,631,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Township's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investments	Fair Value	Weighted Average Maturity
Mutual funds	\$ 5,001,242	13.9 years
Mutual funds	1,015,927	5.59 years
Mutual funds	2,040,253	21.6 years

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 3 - Deposits and Investments (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Township's investment policy further limits its investment choices to commercial paper that is the top rating issued by nationally recognized statistical rating organizations. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investments	Fair Value	Rating	Rating Organization
Mutual funds	\$ 7,414,742	AAA	Standard and Poor's
Mutual funds	75,489	AA	Standard and Poor's
Mutual funds	320,320	A	Standard and Poor's
Mutual funds	185,663	BBB	Standard and Poor's
Mutual funds	18,362	BB	Standard and Poor's
Mutual funds	42,845	Not Rated	Standard and Poor's
Pooled investment funds	6,225,182	Aaa	Moody's

Note 4 - Receivables

Receivables as of year end for the Township's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Fire Protection Fund	Police Protection Fund	Nonmajor and Agency Funds	Total	Enterprise - Water and Sewer
Receivables:						
Taxes	\$ 1,143,085	\$ 1,092,956	\$ 2,005,786	\$ 262,065	\$ 4,503,892	\$ -
Accounts	-	-	-	-	-	-
State revenue sharing	399,995	-	-	-	399,995	-
Water and sewer billings	-	-	-	-	-	1,505,577
Special assessments	-	-	-	-	-	453,892
Interest and other	346,169	-	-	22,484	368,653	1,621,458
Total receivables	<u>\$ 1,889,249</u>	<u>\$ 1,092,956</u>	<u>\$ 2,005,786</u>	<u>\$ 284,549</u>	<u>\$ 5,272,540</u>	<u>\$ 3,580,927</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 4 - Receivables (Continued)

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. The deferred revenue in the governmental activities represents property taxes levied on December 1, 2006, but recognized as revenue in the year ending December 31, 2007, when the proceeds of the levy are budgeted and available for financing operations. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned
Property taxes	\$ 238,631	\$ 7,142,612

Business-type funds do not defer revenue that is unavailable and only record revenue that is earned. At the end of the current fiscal year, the business-type fund had deferred revenue recorded that was unearned. This unearned revenue represents accrued interest income that will only be due to the Township if the receivable is not paid off early. At the end of the current fiscal year, the deferred revenue recorded on the business-type balance sheet is as follows:

	Unavailable	Unearned
Interest	\$ -	\$ 289,402

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 2,324,721	\$ -	\$ -	\$ 2,324,721
Land improvements	2,497,208	-	-	2,497,208
Subtotal	4,821,929	-	-	4,821,929
Capital assets being depreciated:				
Land improvements	1,842,121	884,163	-	2,726,284
Buildings and improvements	6,136,439	120,225	-	6,256,664
Road usage rights	3,869,324	264,779	-	4,134,103
Drains	265,058	-	-	265,058
Safety path	17,784,770	469,587	-	18,254,357
Vehicles	3,429,995	27,722	-	3,457,717
Furniture and equipment	1,639,203	369,179	123,917	1,884,465
Subtotal	34,966,910	2,135,655	123,917	36,978,648
Accumulated depreciation:				
Land improvements	858,822	150,997	-	1,009,819
Buildings and improvements	1,665,954	154,914	-	1,820,868
Road usage rights	2,090,485	200,086	-	2,290,571
Drains	19,558	6,626	-	26,184
Safety path	9,134,618	1,215,951	-	10,350,569
Vehicles	2,535,961	351,384	-	2,887,345
Furniture and equipment	1,395,580	116,523	122,657	1,389,446
Subtotal	17,700,978	2,196,481	122,657	19,774,802
Net capital assets being depreciated	17,265,932	(60,826)	1,260	17,203,846
Net capital assets	\$ 22,087,861	\$ (60,826)	\$ 1,260	\$ 22,025,775

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 5 - Capital Assets (Continued)

	Balance January 1, 2006	Additions	Disposals and Adjustments	Balance December 31, 2006
Business-type Activities				
Capital assets being depreciated:				
Land improvements	\$ 228,112	\$ -	\$ -	\$ 228,112
Water system	30,330,900	2,133,108	-	32,464,008
Sewer system	29,891,654	4,887,397	-	34,779,051
Buildings	518,858	-	-	518,858
Machinery and equipment	699,914	3,480	3,167	700,227
Office equipment	62,715	-	-	62,715
Vehicles	506,633	-	-	506,633
Subtotal	62,238,786	7,023,985	3,167	69,259,604
Accumulated depreciation:				
Land improvements	112,652	11,354	-	124,006
Water system	9,649,899	766,989	-	10,416,888
Sewer system	16,859,553	860,180	-	17,719,733
Buildings	518,857	-	-	518,857
Machinery and equipment	550,480	26,188	3,167	573,501
Office equipment	62,715	-	-	62,715
Vehicles	406,190	67,742	-	473,932
Subtotal	28,160,346	1,732,453	3,167	29,889,632
Net capital assets	<u>\$ 34,078,440</u>	<u>\$ 5,291,532</u>	<u>\$ -</u>	<u>\$ 39,369,972</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 141,992
Public safety	426,284
Public works	1,422,663
Health and welfare	18,931
Community and economic development	415
Recreation and culture	186,196
Total governmental activities	<u>\$ 2,196,481</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Fund Recording Due From	Fund Recording Due To	Amount
General Fund	Safety Path Fund	\$ 262,004
	Host Fee Fund	357,479
	Water and Sewer Fund	<u>164,594</u>
Total General Fund		784,077
Fire Protection Fund	General Fund	4,052,603
Police Protection Fund	General Fund	4,010,339
Other nonmajor governmental funds:		
Keatington Mill Lake Lights Fund	General Fund	2,354
Elkhorn Lake Fund	General Fund	13,177
Square Lake Fund	General Fund	21,844
Square Lake Algae Fund	General Fund	11,571
Lake Orion Canal Fund	General Fund	14,566
Mill Lake Chloride	General Fund	1,207
Compensated Absence Fund	General Fund	50,000
Capital Improvement Fund	General Fund	4,790,886
Fire Capital Improvement Fund	Fire Protection Fund	2,755,385
Friendship Park Fund	General Fund	<u>44,665</u>
Total other nonmajor governmental funds		<u>7,705,655</u>
Total interfund receivables		<u><u>\$ 16,552,674</u></u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. In addition, several funds do not have separate bank accounts and, therefore, the General Fund holds their respective cash and investments.

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 166,000
Fire Protection Fund	Fire Capital Improvement Fund	600,000
Other governmental funds	General Fund	<u>27,227</u>
Total		<u><u>\$ 793,227</u></u>

The transfer from the General Fund to the other governmental fund (Friendship Park Fund) represents the use of unrestricted resources to finance construction projects. The transfer from the Fire Protection Fund to the Fire Capital Improvement Fund represents the movement of resources to be used for fire capital improvements. The transfer from the other governmental funds to the General Fund represents the use of unrestricted resources from the Safety Path Improvement Fund to reimburse the General Fund for expenditures.

Note 7 - Noncurrent Liabilities

Noncurrent liabilities consist of the following:

	<u>Beginning Balance</u>	<u>Additions (Reductions)</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities				
Self-insurance reserve	\$ 41,105	\$ 5,385	\$ 46,490	\$ -
Accumulated employee compensated absences	<u>174,982</u>	<u>(2,257)</u>	<u>172,725</u>	<u>62,735</u>
Total governmental activities	<u><u>\$ 216,087</u></u>	<u><u>\$ 3,128</u></u>	<u><u>\$ 219,215</u></u>	<u><u>\$ 62,735</u></u>

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 8 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for medical benefits provided to employees, participates in the Michigan Municipal League risk pool for claims relating to workers' compensation, and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the Township.

The Township estimates the liability for general claims that have been incurred through the end of the fiscal year, including both those claims that have been reported as well as those that have not yet been reported. These estimates are reflected in the government activities column on the statement of net assets. Changes in the estimated liability for the past two years were as follows:

	<u>2006</u>	<u>2005</u>
Estimated liability - Beginning of year	\$ 41,105	\$ 26,732
Estimated claims incurred, including changes in estimates	12,703	42,634
Claim payments	<u>(7,318)</u>	<u>(28,261)</u>
Estimated liability - End of year	<u>\$ 46,490</u>	<u>\$ 41,105</u>

Charter Township of Orion

Notes to Financial Statements December 31, 2006

Note 9 - Designated Fund Balance

The following is a summary of the unreserved fund balances of the governmental funds that management has designated:

	General Fund	Fire Protection Fund	Police Protection Fund	Fire Capital Improvement Fund	Capital Improvement Fund	Friendship Park Fund	Safety Path Improvement Fund
Designated for:							
Subsequent year's expenditures	\$ 190,038	\$ 14,708	\$ -	\$ 1,745,500	\$ 433,047	\$ 10,839	\$ 432,720
Future road widening	-	-	-	-	3,071,274	-	-
Repair and maintenance	200,000	-	-	-	-	-	409,917
Retention of officers	-	-	1,179,115	-	-	-	-
Total designated	<u>\$ 390,038</u>	<u>\$ 14,708</u>	<u>\$ 1,179,115</u>	<u>\$ 1,745,500</u>	<u>\$ 3,504,321</u>	<u>\$ 10,839</u>	<u>\$ 842,637</u>

Note 10 - Contingent Liabilities

The Township has been involved in a legal case regarding the potential reimbursement of costs for sanitary sewer lines to citizens of a special assessment district. The Oakland County Circuit Court upheld the Township's defense, which the citizens of the special assessment district are now appealing. The Township believes its strong defense, which was upheld at the circuit court level, will prevail in the court of appeals. Therefore, no liability has been recorded.

Note 11 - Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after six months from the time of employment. As established by the Township board of trustees, the Township contributes 10 percent of most employees' gross earnings (with varying rates for DPW employees).

The Township's contributions for each employee are fully vested after 20 months of continuous service. Employees may contribute to the plan on a voluntary basis. In accordance with these requirements, the Township contributed \$278,012 during the current year.

Note 12 - Other Postemployment Benefits

The Township has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The plan allows the Township to contribute, on behalf of its eligible employees, portions of its employees' salary and/or compensated absences to meet its employees' postemployment health care needs. For the fiscal year ended December 31, 2006, the Township made payments for postemployment health benefits of \$46,174.

Upcoming Reporting Change - The Governmental Accounting Standards Board has released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions).

The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2008.

Required Supplemental Information

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,445,926	\$ 1,445,926	\$ 1,413,935	\$ (31,991)
Licenses and permits	808,750	808,750	712,302	(96,448)
Federal grants	108,314	108,314	69,088	(39,226)
State sources	2,242,346	2,242,346	2,189,750	(52,596)
Interest	152,500	152,500	718,316	565,816
Other	680,190	693,840	605,292	(88,548)
Transfers in	432,864	540,864	27,227	(513,637)
Total revenue	5,870,890	5,992,540	5,735,910	(256,630)
Expenditures				
General government:				
Township Board	53,785	53,785	44,351	9,434
Supervisor	270,709	270,709	241,313	29,396
Elections	95,500	112,600	108,127	4,473
Assessing	457,950	457,950	393,099	64,851
Attorney fees	200,000	245,000	223,820	21,180
Finance	26,000	29,000	28,890	110
Clerk	447,234	436,734	428,242	8,492
Board of Review	4,000	4,000	1,725	2,275
Treasurer	316,859	316,859	301,222	15,637
Building and grounds	390,100	390,100	355,210	34,890
Drainage projects	31,000	31,000	9,165	21,835
Other general services	643,938	703,788	410,443	293,345
Total general government	2,937,075	3,051,525	2,545,607	505,918
Public safety:				
Zoning Board of Appeals	12,050	12,050	8,322	3,728
Building inspection	1,008,750	1,008,050	933,328	74,722
Planning Commission	29,430	29,430	16,772	12,658
Civil defense - Tornado sirens	400	400	313	87
Total public safety	1,050,630	1,049,930	958,735	91,195
Public works - Highways and streets	217,000	287,542	265,275	22,267

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended December 31, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Health and welfare:				
Community development block grant	\$ 108,314	\$ 108,314	\$ 36,599	\$ 71,715
Community services	48,000	48,000	39,619	8,381
Senior center	<u>266,280</u>	<u>275,730</u>	<u>244,926</u>	<u>30,804</u>
Total health and welfare	422,594	432,044	321,144	110,900
Recreation and cultural - Parks and recreation	935,291	935,291	847,025	88,266
Capital outlay	138,800	136,600	54,494	82,106
Transfers to other funds	<u>169,500</u>	<u>218,150</u>	<u>166,000</u>	<u>52,150</u>
Total expenditures	<u>5,870,890</u>	<u>6,111,082</u>	<u>5,158,280</u>	<u>952,802</u>
Excess of Revenue Over (Under) Expenditures	-	(118,542)	577,630	696,172
Fund Balance - January 1, 2006	<u>5,397,746</u>	<u>5,397,746</u>	<u>5,397,746</u>	-
Fund Balance - December 31, 2006	<u>\$ 5,397,746</u>	<u>\$ 5,279,204</u>	<u>\$ 5,975,376</u>	<u>\$ 696,172</u>

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended December 31, 2006

Fire Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 1,748,235	\$ 1,748,235	\$ 1,714,992	\$ (33,243)
State sources	1,500	1,500	1,631	131
Interest	40,000	40,000	80,970	40,970
Other	750	750	4,525	3,775
Total revenue	1,790,485	1,790,485	1,802,118	11,633
Expenditures				
Salaries and employee benefits	1,049,000	1,049,000	979,615	69,385
Supplies	37,500	40,400	36,484	3,916
Utilities	43,000	44,800	41,983	2,817
Repairs and maintenance	78,000	73,200	60,942	12,258
Insurance	124,375	124,375	94,483	29,892
Capital outlay	20,000	20,000	19,468	532
Other public safety expenditures	88,550	88,650	66,933	21,717
Transfers to other funds	350,060	600,000	600,000	-
Total expenditures	1,790,485	2,040,425	1,899,908	140,517
Excess of Expenditures Over Revenue	-	(249,940)	(97,790)	152,150
Fund Balance - January 1, 2006	626,893	626,893	626,893	-
Fund Balance - December 31, 2006	\$ 626,893	\$ 376,953	\$ 529,103	\$ 152,150

Charter Township of Orion

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2006

Police Protection Fund

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes and penalties	\$ 3,253,399	\$ 3,253,399	\$ 3,247,198	\$ (6,201)
Licenses and permits	10,000	10,000	14,797	4,797
State sources	-	-	3,252	3,252
Interest	80,000	80,000	176,224	96,224
Other	271,274	271,274	302,819	31,545
Total revenue	3,614,673	3,614,673	3,744,290	129,617
Expenditures				
Salaries and employee benefits	3,250,541	3,338,201	3,330,350	7,851
Supplies	9,000	9,000	4,165	4,835
Utilities	59,000	62,000	61,394	606
Repairs and maintenance	5,000	5,000	1,791	3,209
Capital outlay	20,000	20,000	-	20,000
Other public safety expenditures	271,132	180,472	52,990	127,482
Total expenditures	3,614,673	3,614,673	3,450,690	163,983
Excess of Revenue Over Expenditures	-	-	293,600	293,600
Fund Balance - January 1, 2006	1,790,509	1,790,509	1,790,509	-
Fund Balance - December 31, 2006	<u>\$ 1,790,509</u>	<u>\$ 1,790,509</u>	<u>\$ 2,084,109</u>	<u>\$ 293,600</u>

Charter Township of Orion

Note to Required Supplemental Information December 31, 2006

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds, with the exception of operating transfers, which have been included in the "revenue" and "expenditures" categories, rather than as "other financing sources (uses)." All annual appropriations lapse at fiscal year end. The annual budget is prepared by the Township supervisor; a public hearing is held by September 30 and adopted by the Township board by October 31 of the preceding year; subsequent amendments are approved by the Township board. During the year, the budget was amended in a legally permissible manner.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity basis.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The Township did not have any significant budget variances.

Deficits - The Square Lake Fund had an accumulated fund deficit of \$568 at December 31, 2006. The deficit will be eliminated during the year ending December 31, 2007 through the collection of special assessments.

Other Supplemental Information

Charter Township of Orion

	Special Revenue Funds						
	Keatington Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Square Lake Algae Fund	Lake Orion Canal Fund	Mill Lake Chloride Fund	Compensated Absence Fund
Assets							
Investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property taxes receivable	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-
Due from other funds	2,354	13,177	21,844	11,571	14,566	1,207	50,000
Total assets	<u>\$ 2,354</u>	<u>\$ 13,177</u>	<u>\$ 21,844</u>	<u>\$ 11,571</u>	<u>\$ 14,566</u>	<u>\$ 1,207</u>	<u>\$ 50,000</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ -	\$ -	\$ 11	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	-	-	-	-	-	-
Deferred revenue	1,898	9,550	22,401	-	14,566	1,192	-
Total liabilities	1,898	9,550	22,412	-	14,566	1,192	-
Fund Balances - Unreserved							
Designated for subsequent year's expenditures	-	-	-	-	-	-	-
Designated for repairs and maintenance	-	-	-	-	-	-	-
Designated for future road widening	-	-	-	-	-	-	-
Undesignated	456	3,627	(568)	11,571	-	15	50,000
Total fund balances	456	3,627	(568)	11,571	-	15	50,000
Total liabilities and fund balances	<u>\$ 2,354</u>	<u>\$ 13,177</u>	<u>\$ 21,844</u>	<u>\$ 11,571</u>	<u>\$ 14,566</u>	<u>\$ 1,207</u>	<u>\$ 50,000</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2006**

Capital Projects Funds					Total Nonmajor Governmental Funds
Host Fee Fund	Capital Improvement Fund	Friendship Park Fund	Fire Capital Improvement Fund	Safety Path Improvement Fund	
\$ 2,137,745	\$ -	\$ -	\$ -	\$ 1,774,460	\$ 3,912,205
-	-	-	-	262,065	262,065
17,984	-	-	-	4,500	22,484
-	4,790,886	44,665	2,755,385	-	7,705,655
<u>\$ 2,155,729</u>	<u>\$ 4,790,886</u>	<u>\$ 44,665</u>	<u>\$ 2,755,385</u>	<u>\$ 2,041,025</u>	<u>\$ 11,902,409</u>
\$ -	\$ 79,627	\$ 4,773	\$ -	\$ 3,960	\$ 88,371
357,479	-	-	-	262,004	619,483
-	-	-	-	429,837	479,444
357,479	79,627	4,773	-	695,801	1,187,298
-	433,047	-	1,745,500	384,080	2,562,627
-	-	10,839	-	458,557	469,396
-	3,071,274	-	-	-	3,071,274
1,798,250	1,206,938	29,053	1,009,885	502,587	4,611,814
1,798,250	4,711,259	39,892	2,755,385	1,345,224	10,715,111
<u>\$ 2,155,729</u>	<u>\$ 4,790,886</u>	<u>\$ 44,665</u>	<u>\$ 2,755,385</u>	<u>\$ 2,041,025</u>	<u>\$ 11,902,409</u>

Charter Township of Orion

	Special Revenue Funds						
	Keatington Mill Lake Lights Fund	Elkhorn Lake Fund	Square Lake Fund	Square Lake Algae Fund	Lake Orion Canal Fund	Mill Lake Chloride Fund	Compensated Absence Fund
Revenue							
Taxes and penalties	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Eagle Valley fees	-	-	-	-	-	-	-
Federal sources	-	-	-	-	-	-	-
State sources	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Special assessments	1,898	9,363	14,900	8,321	14,566	1,049	-
Other	-	-	-	-	-	-	-
Total revenue	1,898	9,363	14,900	8,321	14,566	1,049	-
Expenditures							
Utilities	1,740	-	13,768	1,704	-	-	-
Repairs and maintenance	-	8,703	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Other	-	-	-	-	14,566	1,068	-
Total expenditures	1,740	8,703	13,768	1,704	14,566	1,068	-
Excess of Revenue Over (Under)							
Expenditures	158	660	1,132	6,617	-	(19)	-
Other Financing Sources (Uses)							
Operating transfer in	-	-	-	-	-	-	-
Operating transfer out	-	-	-	-	-	-	-
Contribution	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Net Change in Fund Balances	158	660	1,132	6,617	-	(19)	-
Fund Balances (Deficit) - January 1, 2006	298	2,967	(1,700)	4,954	-	34	50,000
Fund Balances (Deficit) - December 31, 2006	\$ 456	\$ 3,627	\$ (568)	\$ 11,571	\$ -	\$ 15	\$ 50,000

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended December 31, 2006

Capital Projects Funds					
Host Fee Fund	Capital Improvement Fund	Friendship Park Fund	Fire Capital Improvement Fund	Safety Path Improvement Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 411,427	\$ 411,427
262,267	-	-	-	-	262,267
-	-	-	180,000	-	180,000
-	48,374	-	-	-	48,374
88,390	-	-	100,692	75,290	264,372
-	-	-	-	-	50,097
-	-	-	-	127,801	127,801
350,657	48,374	-	280,692	614,518	1,344,338
-	-	-	-	-	17,212
-	-	-	22,033	-	30,736
-	370,410	165,812	304,630	157,103	997,955
3,923	-	-	-	71,971	91,528
3,923	370,410	165,812	326,663	229,074	1,137,431
346,734	(322,036)	(165,812)	(45,971)	385,444	206,907
-	-	166,000	600,000	-	766,000
-	-	-	-	(27,227)	(27,227)
-	100,000	-	-	-	100,000
-	100,000	166,000	600,000	(27,227)	838,773
346,734	(222,036)	188	554,029	358,217	1,045,680
1,451,516	4,933,295	39,704	2,201,356	987,007	9,669,431
\$ 1,798,250	\$ 4,711,259	\$ 39,892	\$ 2,755,385	\$ 1,345,224	\$ 10,715,111

Charter Township of Orion

Other Supplemental Information Fiduciary Funds - Combining Statement of Net Assets Agency Funds December 31, 2006

	Trust and Agency Fund	Tax Collection Fund	Indianwood Lake Board Fund	Total
Assets - Cash	<u>\$ 1,380,393</u>	<u>\$ 4,104,003</u>	<u>\$ 5,694</u>	<u>\$ 5,490,090</u>
Liabilities				
Due to other governmental units	\$ -	\$ 3,985,023	\$ 74,901	\$ 4,059,924
Deposits and building bonds	1,363,944	-	-	1,363,944
Due to other funds	-	69,207	(69,207)	-
Other liabilities	<u>16,449</u>	<u>49,773</u>	<u>-</u>	<u>66,222</u>
Total liabilities	<u>\$ 1,380,393</u>	<u>\$ 4,104,003</u>	<u>\$ 5,694</u>	<u>\$ 5,490,090</u>



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May 9, 2007

To the Board of Trustees
Charter Township of Orion
2525 Joslyn Road
Lake Orion, MI 48360

Dear Board Members:

We recently completed our audit of the basic financial statements of the Charter Township of Orion (the "Township") for the year ended December 31, 2006. As a result of our audit, we have the following comments and recommendations for your review and consideration.

Financial Results

For the year ended December 31, 2006, the Township's General Fund improved its financial position by approximately \$578,000. The Township realized this increase in fund balance even with overall revenues within the General Fund decreasing by approximately 6.5 percent and expenditures increasing by approximately 11 percent from the prior year. For comparison purposes, the General Fund added \$1,395,000 to its fund balance for the year ended December 31, 2005.

The main reasons for the decrease in General Fund revenue were due to the Township not receiving reimbursements of tri-party project costs and drainage costs which lowered current year income by approximately \$606,000, the reduction in property tax revenue due to the Township reducing its levy from .9322 to .8200 for the year ended December 31, 2006, which resulted in a decrease of overall tax revenue of approximately \$85,000, and the decrease in state source revenue of approximately \$40,000. The decreases from 2005 to 2006 in revenue were partially offset by the increase in interest income of approximately \$306,000 and federal grant dollars increase of approximately \$53,000.

The Township saw an increase in all of its General Fund expenditure functions except for capital outlay, with the largest increases occurring within general government, public works, health and welfare, and recreation and culture. The main reason for the increases within the general government function was due to the increase in election costs of approximately \$72,000, which was partially a result of the State of Michigan's mandated law of consolidating elections which was an unfunded additional responsibility to the Township, increases in engineering costs of approximately \$54,000, and increases in the North Oakland Transportation Authority payments of approximately \$28,000. Public works increased mainly due to building inspection wages increasing by approximately \$56,000 and road repairs increasing by approximately \$152,000 from the prior year. The health and welfare costs increased mainly due to the senior center management fees and wages. The parks and recreation costs increased to support their program, which consisted mainly of salaries and repairs increases.

We commend the Township board, as well as department heads and staff, for their efforts in budgeting and financial management. Even in this distressed municipal environment, the Township has been able to decrease property taxes to its citizens as well as pay for needed services that benefit the community while continuing to increase its overall General Fund fund balance.

We continue to recommend that the Township develop a multiyear operational plan in order to ensure continued financial viability over the long run in this uncertain municipal environment. We continue to offer our assistance in this process of examining the Township's financial future.

In addition, it is our understanding that the Township is considering future building projects. As you know, building projects are not something the Township deals with on a day-to-day basis. They involve a very large use of taxpayer funds, so it is imperative that the projects meet the needs of the community and are managed in such a way as to get the best value for the Township. Plante & Moran CRESA (Corporate Real Estate Service Advisors) would be in a position to assist the Township with these projects. CRESA is comprised of a multi-disciplined team of financial, architectural, engineering, construction, and real estate professionals offering the benefits of a full-service, internal real estate department. More specifically, CRESA is involved in facility design and construction oversight activities including contractor bid and selection, scheduling, budget and tracking, construction monitoring, change order management, furniture procurement, and move management.

State-shared Revenue

As you are aware, the statutory portion of revenue sharing terminates on September 30, 2007. This portion of revenue sharing represents approximately \$72,000 of the \$2,180,000 that Orion Township is estimated to receive for the State's 2007 fiscal year. Due to appropriation reductions to revenue sharing since 2001 (including approximately \$558 million statewide in fiscal year 2006/2007 over amounts calculated by the statutory formula), a number of townships are no longer receiving any statutory revenue sharing. To accomplish the appropriation reductions mandated in the State's budget, the State is required to reduce the statutory portion of a local unit's revenue sharing (remember that the constitutional portion cannot be adjusted). Many townships no longer have any statutory revenue sharing remaining as a result. In fact, Orion Township's statutory revenue sharing has decreased to \$52,000 for the State's 2008 fiscal year. For those communities that are no longer receiving the statutory portion, because sales tax collections have increased since 2001, their revenue sharing is actually increasing because they are now only receiving constitutional revenue sharing which must increase as sales tax collections increase.

Internal Control

The American Institute of Certified Public Accountants Audit Standards Board recently issued nine new Statements on Auditing Standards (SAS). The new auditing standards increase the level of documentation that is required to be obtained during our audits and modify the way we conduct our work. The new standards take effect over the next two years.

We are now required to comply with Statement on Auditing Standards 112, *Communication of Internal Control Related Matters Noted in an Audit*. This standard lowers the threshold that is used to determine if a control deficiency must be reported to the board. The board should be pleased to note that our testing did not reveal any significant deficiencies not already addressed by the Township. However, we did note the following items that should be given further consideration:

- There appears to be a lack of proper segregation of duties within the payroll department. One individual is responsible for keeping all payroll data, check preparation, check printing, creating and eliminating employees from the system, changing employee pay rates, and setting up an employee for direct deposit. In order to enhance internal controls within this department, we suggest that the Township consider assigning an individual outside the payroll function the responsibility to create and delete employees within the payroll system, change pay rates, and set up an employee for direct deposit. This individual would only be allowed limited access to the payroll module, enabling them the ability to complete this separate function. This limited access would not allow this individual access to the rest of the payroll processing functions. We further recommend that the supervisor's office periodically provide the signers and reviewers of the payroll checks with a listing of new employees and terminated employees so that they can verify that only active employees are included in the payroll.
- There also appears to be a lack of monthly documentation provided to the clerk's office from the treasurer's office to fully support dividend wire transfers between accounts within the Township. We suggest that when these monthly dividend wire transfers occur, source documentation for that wire transfer be sent directly to the clerk's department when the transfer out occurs. This will help to ensure that these dividend wire transfers are accounted for in a monthly manner. It is our understanding that the clerk and treasurer departments are currently working together to ensure that appropriate documentation is shared in a timely manner.
- In order to further enhance internal controls, the Township may also want to consider limiting access to blank checks during the working day. We suggest blank checks be locked up at all times and obtained only by written request. The Township may also want to consider having the handwritten checks be multiple-copy type checks. It is our understanding that the clerk and treasurer departments are currently working to enhance this system.

Construction Code Fees

The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges a fee for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. In theory, revenue should be fairly consistent with the costs. However, in the Township's case, revenues have been less than costs, resulting in an accumulated shortfall of approximately \$1,300,000. These costs have been absorbed by the General Fund over the past six years. The Township may want to consider increasing the building permit fees to cover a larger portion of the associated costs of the program.

Compensated Absences

The Township's liability for accumulated compensated absences is about \$170,000. We suggest that the Township create a Compensated Absence Reserve Fund in order to set aside funds for these eventual payouts. As a result, when employees leave and are paid out their balances, there will be no impact on the General Fund budget. While your liability is not relatively large at this point, it will continue to grow and it is always good policy to fund the liability.

Legislative and Other Matters

Property Tax Legislation

A series of House bills have been introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent - until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred as the "uncapped" value or the "pop-up" value. As several published studies and reports have demonstrated, the treatment of "uncapped" values or the "pop-up" amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994. The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- House Bill 4440 establishes an 18-month moratorium on the "pop-up" or "uncapping" of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The "pop-up" or "uncapping" of taxable value would be delayed until the property was sold or transferred in later years.
- House Bill 4441 increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local governments for potential loss in revenue occurring from House Bill 4440.
- House Bill 4442 would change the General Property Tax Act to exempt the "pop-up" or "uncapped" value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as "additions" to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14, 2007 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House.

Update on Business Tax Reform

The Michigan Single Business Tax has been eliminated, effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. The governor's fiscal year 2007/2008 budget recommends replacing a majority of the repealed single business tax revenue with a new Michigan business tax and the enactment of a new excise tax on service providers. The new Michigan business tax (MBT) is projected to generate approximately \$480 million less annually in revenue than currently generated by the single business tax but the new 2 percent excise tax on most services is projected (if effective on June 1, 2007) to raise about \$576 million in the remainder of the fiscal years 2006/2007 to help with State's budget deficit for that year and to raise \$1.47 billion in the State's fiscal year 2007/2008. The governor's budget also includes several other tax increases and changes. Much debate will occur prior to the enactment of a final tax structure plan.

Personal Property Tax

Over the last six years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in approximately a 10 percent drop in property tax revenue. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately a 30 percent revenue loss to local units of government). Further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes account for about 8 percent of the Township's tax base. If the State's new business tax structure provides personal property tax relief, the question is, will local governments be held harmless by the State and to what extent?

Municipal Finance Act Revisions - Reminder

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the Township's year ended December 31, 2006, and is good for one year thereafter.

We would like to thank you and your staff for the courtesy and cooperation extended to us during this audit. If there are any questions about your financial report or the above comments and recommendations, we would be happy to discuss them at your convenience.

Very truly yours,

Plante & Moran, PLLC

A handwritten signature in black ink, reading "Beth Bialy". The signature is written in a cursive style with a large, stylized "B" and "B".

Beth A. Bialy

A handwritten signature in black ink, reading "Kathryn J. Kercorian". The signature is written in a cursive style with a large, stylized "K" and "K".

Kathryn J. Kercorian